

Date: March 13, 2006
To: Assembly Education Committee, Fiscal Policy Workgroup
From: Rachel Ehlers
Subject: Projected Proposition 98 Per-Pupil Spending

We have prepared the attached projections of Proposition 98 per-pupil spending in response to the request made by Assembly Member Richman at the March 1, 2006 meeting of the committee's Fiscal Policy Workgroup. These projections assume the 2005-06 and 2006-07 spending levels proposed in the Governor's budget, and the Legislative Analyst's Office's projections for the Proposition 98 minimum guarantee in 2007-08 through 2010-11. Our estimates for the future division of Proposition 98 funds between K-12 and California Community Colleges are based on projections for growth in the underlying populations served by each segment.

As shown in the attached table, our forecast predicts that per-pupil spending will increase substantially in the coming years—by 5.1 percent in 2008-09 and 5.7 percent in 2009-10. These per-pupil increases result from various factors, including decreases in the statewide student population and, in 2009-10, the trigger of the Proposition 98 Test 1 factor. This formula requires that around 41 percent of General Fund revenues be spent on K-14 education. These growth rates are considerably higher than estimates of the K-12 cost-of-living adjustment (COLA) rates in those years—around 2.7 percent annually. Thus, our estimates suggest Proposition 98 will require the Legislature to provide additional funds to education beyond those needed to meet COLA obligations. These funds could be used to address issues resulting from declining enrollment.

As was mentioned during the workgroup meeting, however, it is important to remember that even if per-pupil spending for K-12 education increases substantially in the next few years, as reflected in our forecast, it would not automatically alleviate the problems districts face related to declining enrollment. To the extent that the Legislature appropriates increased funding to expand existing or create new categorical programs rather than providing additional general purpose dollars, districts would continue to face challenges resulting from declining enrollment. To the extent that additional general purpose funds are provided through revenue limits or other means, districts may be able to use these dollars to help mitigate the challenges of a declining student population. (Currently, around 70 percent of K-12 Proposition 98 funds are provided as general purpose monies under the revenue limit formula.)

Attachment